

Message Text

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PAGE 01 BERN 00243 01 OF 02 191644Z

ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 /114 W
-----191904Z 098925 /40

R 191528Z JAN 77

FM AMEMBASSY BERN
TO SECSTATE WASHDC 3791
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION GENEVA
USDEL MTN GENEVA
AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 0243

PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK JAN 9-15

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC ROSE FROM
SF 2.47 TO SF 2.49 FOLLOWING ANNOUNCEMENT OF NEW US
ADMINISTRATION'S PLANS TO STIMULATE THE ECONOMY AND
INDICATIONS IMPROVED PERFORMANCE US ECONOMY. CAPITAL
MARKET HIGHLY LIQUID AND INTEREST RATES CONTINUE TO SOFTEN.
PUBLIC DEBATE FOCUSED ON NEED STIMULATE SWISS ECONOMY
AND GOVT PLANS TO INCREASE SPENDING IF UNEMPLOYMENT
BECOME SERIOUS. SALES DURING FIRST QTR 77 EXPECTED
TO BE BETTER THAN FIRST QTR 76 BUT MOST MANAGERS RELUCTANT
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PAGE 02 BERN 00243 01 OF 02 191644Z

MAKE PREDICTIONS. LAUSANNE UNIVERSITY ECONOMIC
FORECAST PREDICTS 2.3 PERCENT ECONOMIC GROWTH IN 77.
OVERALL BUDGET DEFICIT OF SF 1.7 BILLION PROJECTED
FOR 26 CANTONS IN 77. UNEMPLOYMENT IN DEC
76 ROSE 13.8 PCT TO 17.401. SWISSAIR REPORTED
INCREASED PROFITS AND NEW AIRCRAFT PURCHASES. END SUMMARY.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: ACTIVE FOREIGN EXCHANGE MARKET REACTED QUICKLY TO ANNOUNCEMENTS OF STAND-BY FACILITY FOR UK STERLING BALANCES AND NEW US ADMINISTRATION'S PLANS TO STIMULATE THE ECONOMY. POUND STERLING FIRMED AGAINST SWISS FRANC WHILE DOLLAR RATE ROSE FROM SF 2.47 TO SF 2.49. DOLLAR WEAKENED WEDNESDAY AFTER REPORT OF RISE IN US WHOLESALE PRICE INDEX, BUT RECOVERED WHEN SWISS NATIONAL BANK INTERVENED IN MARKET. DOLLAR MADE LARGEST GAIN FRIDAY FOLLOWING REPORTS OF INCREASED NEW CAR SALES, IMPROVED CAPITAL INVESTMENTS AND POSSIBLE PRIME RATE LENDING RATE INCREASE IN US. SWITZERLAND ANNOUNCED CONTRIBUTION OF \$350 MILLION TO IMF AND \$300 MILLION TO BIS STAND-BY FACILITIES FOR UK. LIGHT DEMAND FOR GOLD CAUSED PRICE TO SLIP SLIGHTLY BUT NO TREND SEEN INFLUENTUATING MARKET. RATES FOLLOW:

	1/10(OPEN)	1/14(CLOSE)
SPOT DOLLAR	2.4715	2.4910
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTH	4.65	4.48
TWO MONTHS	4.21	4.22
3 MONTHS	3.89	3.97
6 MONTHS	3.65	3.80
12 MONTHS	3.33	3.49
SF/DM	104.19	104.05
GOLD	132.25	131.00

3. CAPITAL AND MONEY MARKETS: MARKETS HIGHLY LIQUID - UNCLASSIFIED

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PAGE 03 BERN 00243 01 OF 02 191644Z

INTEREST RATES SOFTENED. CALL MONEY RATE REMAINED 0.25 PERCENT. SELECTED STOCK PRICES MAINTAINED GAINS OF PREVIOUS WEEK; SKA INDEX (1959 - 100) 225.30 JAN 14. AVERAGE YIELD CONFEDERATION BONDS DROPPED TO 4.09; SOME BANKS SPECULATED THAT NEXT CONFEDERATION BORROWING COULD BE AT 3.75 IF DOWNWARD TREND CONTINUES. INTEREST RATES ON FEDERAL DEBT CERTIFICATES WERE REDUCED FROM 4.25 TO 3.5 FOR 4 YEARS MATURITY AND FROM 5.25 TO 4.25 FOR 8 YEARS. LARGEST SWISS BANKS CUT THEIR TIME DEPOSIT RATES EFFECTIVE JAN 10:

	NEW	OLD
3-5 MONTHS	1.25	1.5
6-11 MONTHS	1.5	1.75
12 MONTHS	2.00	2.25

FOUR LARGEST BANKS REDUCED INTEREST RATES ON THEIR MEDIUM TERM CASH BONDS AS OF JAN 12:

	NEW	OLD
3-4 YEARS	3.25	3.5

5-6 YEARS	3.5	4.0
7-8 YEARS	3.75	4.25

MORTGAGE INTEREST RATES ARE EXPECTED TO DECREASE 0.5
PCT APR 1, 77. COMMISSARIAT FOR ATOMIC ENERGY,
PARIS ANNOUNCED LOAN ON SWISS MARKET OF SF 80 MILLION
AT 5.5 PCT INTEREST FOR 15 YEARS ISSUED AT 99.5
PCT, GUARANTEED BY FRENCH GOVT, INTEREST,
CAPITAL AND PREMIUM PAY NET OF ALL TAXES. PRESS

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PAGE 01 BERN 00243 02 OF 02 191649Z
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UNCLAS SECTION 2 OF 2 BERN 0243

PASS TREASURY AND FRB

REPORTED POSSIBILITY THAT FOREIGN STOCK BROKERS-DEALERS
MIGHT BE PERMITTED TO BECOME MEMBERS OF NEW YORK STOCK
EXCHANGE AND THAT EUROPARTNERS SECURITIES CORP. (PARTLY
OWNED BY BANK LEU, ZURICH) AND SOGEN-SWISS SECURITIES,
ZURICH (PARTLY OWNED BY SWISS CREDIT BANK) HAVE
APPLIED FOR NYSE MEMBERSHIP.

ECONOMIC

4. ECONOMIC PRIORITIES: PUBLIC DEBATE CENTERED ON
NEED TO STIMULATE INVESTMENT AS FIRST PRIORITY FOR
SWISS ECONOMY. SWISS BANKERS' ASSN CRITICIZED
GOVT'S PLANNED ECONOMIC PROGRAM FOR RELYING TO
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PAGE 02 BERN 00243 02 OF 02 191649Z

HEAVILY ON MONETARY MEASURES TO STIMULATE THE ECONOMY.
INDUSTRY AND LABOR LEADERS CALLED FOR EFFORTS TO
LOWER SWISS FRANC EXCHANGE RATE TO IMPROVE EXPORT
EARNINGS. HOWEVER, SOME ECONOMISTS NOTED THAT
SWITZERLAND RELIES HEAVILY ON IMPORTS AND APPRECIATED
FRANC HAS KEPT INFLATION DOWN BY REDUCING
IMPORT COSTS. THEY BELIEVE THAT EXPORT INDUSTRIES
REQUIRE INNOVATION AND STREAMLINING THROUGH 1986 BECAUSE
OF EXPECTED INCREASE UNEMPLOYMENT DUE FURTHER RATIONALIZA-
TION IN WATCH INDUSTRY. FEDERAL COUNCILOR BRUGGER
DISCLOSED THAT GOVT HAS PLAN TO STIMULATE ECONOMY
IF UNEMPLOYMENT BECOMES SERIOUS. NO DETAILS
WERE GIVEN, BUT PRESS REPORTED THAT PLAN TO SPEND
OVER SF 2 BILLION MIGHT BE IMPLEMENTED BY LATE 77
IF UNEMPLOYMENT ROSE OVER 30,000. THOUGH SOME
ECONOMISTS WELCOMED PROSPECT GOVT INITIATIVES,
SNB VICE PRES SCHUERMAN WARNED THAT PREMATURE
PUBLIC SPENDING COULD BRING RENEWED INFLATION.

5. BUSINESS OUTLOOK: UNION BANK OF SWITZERLAND BUSINESS
SURVEY FOR FRIST QTR 76 SHOWED THAT NEW ORDERS
AND WORK BACKLOG ARE EXPECTED TO EXCEED LEVELS OF
FIRST QTR 76. UBS NOTED INCREASED INABILITY
OF BUSINESS MANAGERS TO FORESEE MARKET TREND. ONLY
43 PCT OF THOSE POLLED BELIEVED THEY WOULD INCREASE
PRODUCTION, COMPARED TO OVER 50 PCT IN PREVIOUS QTRS LAST
YEAR. HOWEVER, ONLY 12 PCT PREDICTED OVERALL DOWNTURN, THOUGH
30 PCT EXPECTED DECREASED EXPORTS AND 20 PCT PREDICTED LOWER
DOMESTIC DEMAND. TEXTILE AND PAPER PRODUCT INDUSTRIES WERE
THE MOST OPTIMISTIC.

6. ECONOMIC FORECAST: LAUSANNE UNIVERSITY APPLIED ECONOMIC
RESEARCH CENTER HAS FORECAST 2.3 PCT SWISS ECONOMIC GROWTH
IN 77 BASED ON ECONOMIC MODEL APPLYING AVERAGE 3.75 PCT
GROWTH AND 7.5 PCT INFLATION RATE WITHIN OECD GROUP.
AERC PREDICTED 77 OVERALL INVESTMENT INCREASE OF 10 PCT
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PAGE 03 BERN 00243 02 OF 02 191649Z

WITH NEW PLANT AND EQUIPMENT UP 4.5 PCT AND
CONSTRUCTION 5.3 PCT. EXPORT VOLUME EXPECTED TO

GROW 6.4 PCT WHILE IMPORT VOLUME INCREASES 5.5 PCT. FOREIGN TRADE SHOULD SHOW DEFICIT BUT CURRENT ACCOUNT WILL BE IN SURPLUS. SOME 30,000 JOB POSITIONS MAY BE LIST IN 77, COMPARED TO OVER 80,000 IN 76; THESE LOSSES SHOULD BE ABSORBED BY FURTHER DEPARTURES FROM LABOR FORCE. INFLATION EXPECTED TO BE 1.9 PCT WITH WAGES UP 1.9 PCT IN REAL TERMS. SWISS FRANC APPRECIATION OF 5 PCT PREDICTED IN 77 AND DWISS MONEY SUPPLY (M1) GROWTH 4 PCT. ECONOMY IN 78 EXPECTED TO GROW 4 PCT WITH INFLATION RATE 3.5 PCT.

7. CANTONAL BUDGETS: ALL 26 CANTONAL GOVTS ARE PROJECTING DEFICITS IN 77. COMBINED TOTAL ESTIMATED AT SF 1.7 BILLION AS OVERALL EXPENDITURES RISE 2.8 PCT. NEARLY HALF OF TOTAL PROJECTED DEFICIT ACCOUNTED FOR BY CANTONS ZURICH, TICINO AND VAUD.

8. LABOR: END DEC UNEMPLOYMENT WAS 17,401, UP 2,109 OR 13.8 PCT FROM NOV 76 BUT DOWN ABOUT 9,000 OR 34 PCT FROM DEC 75.

9. SWISSAIR: SWISSAIR REPORTED 76 PROFIT MARGIN OF 3 PCT COMPARED 1.25 PCT IN 75, DUE TO RECORD CAPACITY. THREE NEW DEC-9-51 AIRCRAFT WERE ADDED TO ITS FLEET IN 76? TWO MORE OF THIS MODEL AND ONE DC-10 WILL BE BOUGHT IN 77. SWISSAIR PLANS TO SPEND SF 150 MILLION FOR NEW INVESTMENTS IN 77, COMPARED TO SF 120 MILLION IN 76 AND SF 373 MILLION IN 75, WITH SUFFICIENT CASH FLOW TO COVER THESE NEEDS WITHOUT RECOURSE TO CAPITAL MARKET BORROWING.
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